

MICHIGAN OFFICE OF
THE AUDITOR GENERAL
OVERVIEW

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall
conduct post audits of
financial transactions and
accounts of the state and of
all branches, departments,
offices, boards, commissions,
agencies, authorities
and institutions of the
state established by this
constitution or by law, and
performance post audits
thereof.

*- Article IV, Section 53 of the
Michigan Constitution*



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AUDITOR GENERAL

This document consists of selected information from the Michigan Office of the Auditor General (OAG) Web site at: ***<http://audgen.michigan.gov>***. The OAG's Annual Report and issued audit reports can be viewed in their entirety on this Web site.

Directory

Thomas H. McTavish, C.P.A. Auditor General
Scott M. Strong, C.P.A., C.I.A. Deputy Auditor General
Craig M. Murray, C.P.A., C.I.A. Director of Professional Practice
Kimberly E. Jacobs, C.P.A., C.I.S.A., C.N.E. Chief Information Officer
Paul J. Green, C.P.A., C.I.A., C.I.S.A. Director of Administration
Robert T. Ortwein, P.C., C.S.W. State Relations Officer

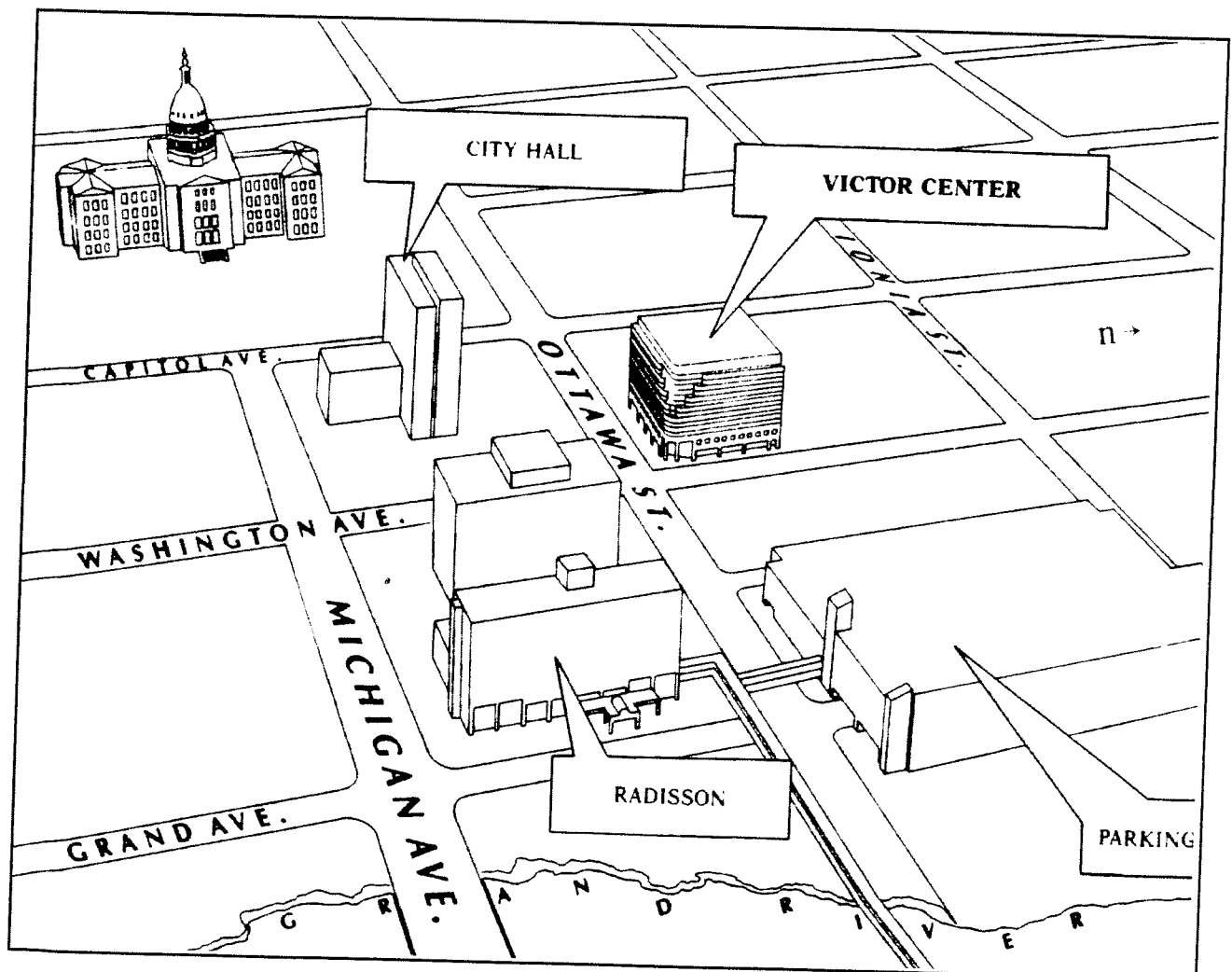
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Where We Are Located



Mission and Overview

...to improve the accountability for public funds and to improve the operations of State government...

Mission

The mission of the Office of the Auditor General (OAG) is to improve the accountability for public funds and to improve the operations of State government for the benefit of the citizens of the State of Michigan. The OAG best accomplishes its mission by committing to total quality; by adhering to the professional standards of the auditing profession; and by promoting an atmosphere of mutual trust, honesty, and integrity among OAG staff and the people they serve.

Responsibility

The State Constitution established the OAG within the legislative branch of State government. The OAG has the responsibility, as stated in Article IV, Section 53 of the State Constitution, to conduct post financial and performance audits of State government operations. In addition, certain sections of the *Michigan Compiled Laws* contain specific audit requirements in conformance with the constitutional mandate.

...to assist the Legislature in its oversight of more than 100 individual State funds and an annual budget of approximately \$43 billion.

Government officials and employees are accountable to the citizens of the State of Michigan for the proper handling of public funds and are responsible for managing State resources effectively, efficiently, and economically. OAG audit reports provide a continuing flow of information to assist the Legislature in its oversight of more than 100 individual State funds and an annual budget of approximately \$43 billion. OAG audit reports also provide citizens with a measure of accountability and assist department administrators by providing an independent and objective evaluation of their operations. The OAG's overall goal is to improve accounting and financial reporting practices and to promote effectiveness, efficiency, and economy in State government.

Audit activities are performed in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States.

Organization and Operation of the OAG

The OAG is organizationally divided into four areas of responsibility:

- The Bureau of Audit Operations is responsible for conducting independent post financial and performance audits of the State of Michigan's executive, legislative, and judicial branches of government, including its universities and community colleges. The Bureau also performs specific reviews in response to legislative requests. In addition, the Bureau participates in joint National State Auditors Association audits with other states' audit agencies.
- The Office of Professional Practice is responsible for performing quality assurance reviews of audit reports and working papers, editing the audit reports, and conducting accounting and auditing research.
- The Office of Information Technology is responsible for managing the OAG local area network, maintaining the management information system, and providing computer support and software assistance to all OAG staff.
- The Office of Administration is responsible for human resource management; accounting and budgeting; audit report production; and officewide printing, purchasing, and clerical support.

The OAG is organizationally divided into one bureau and three offices.

A chart depicting this organizational structure is presented on page 7.

Mission and Overview

Communication and State Relationships

The OAG is committed to establishing and maintaining communication with all three branches of State government, as well as other entities subject to oversight by the OAG, which includes universities and community colleges.

OAG audit reports are the formal, written, and primary means of communicating the results of audit efforts. In addition to the reports, the OAG also focuses on communication and maintaining good working relationships before and after the issuance of audit reports. The OAG has established processes to communicate its audit plans to auditees and the Legislature, to issue periodic status reports to the House and Senate leadership, to issue quarterly summaries of audit reports, and to provide briefings and testimony before legislative committees. Additionally, the OAG issues an annual report on the operations of the OAG to the Governor, the legislative leaders, and each member of the Legislature.

To achieve the widest distribution of its audit efforts, the OAG posts copies of its audit reports, and a copy of the annual report, to its Web site at <http://audgen.michigan.gov>.

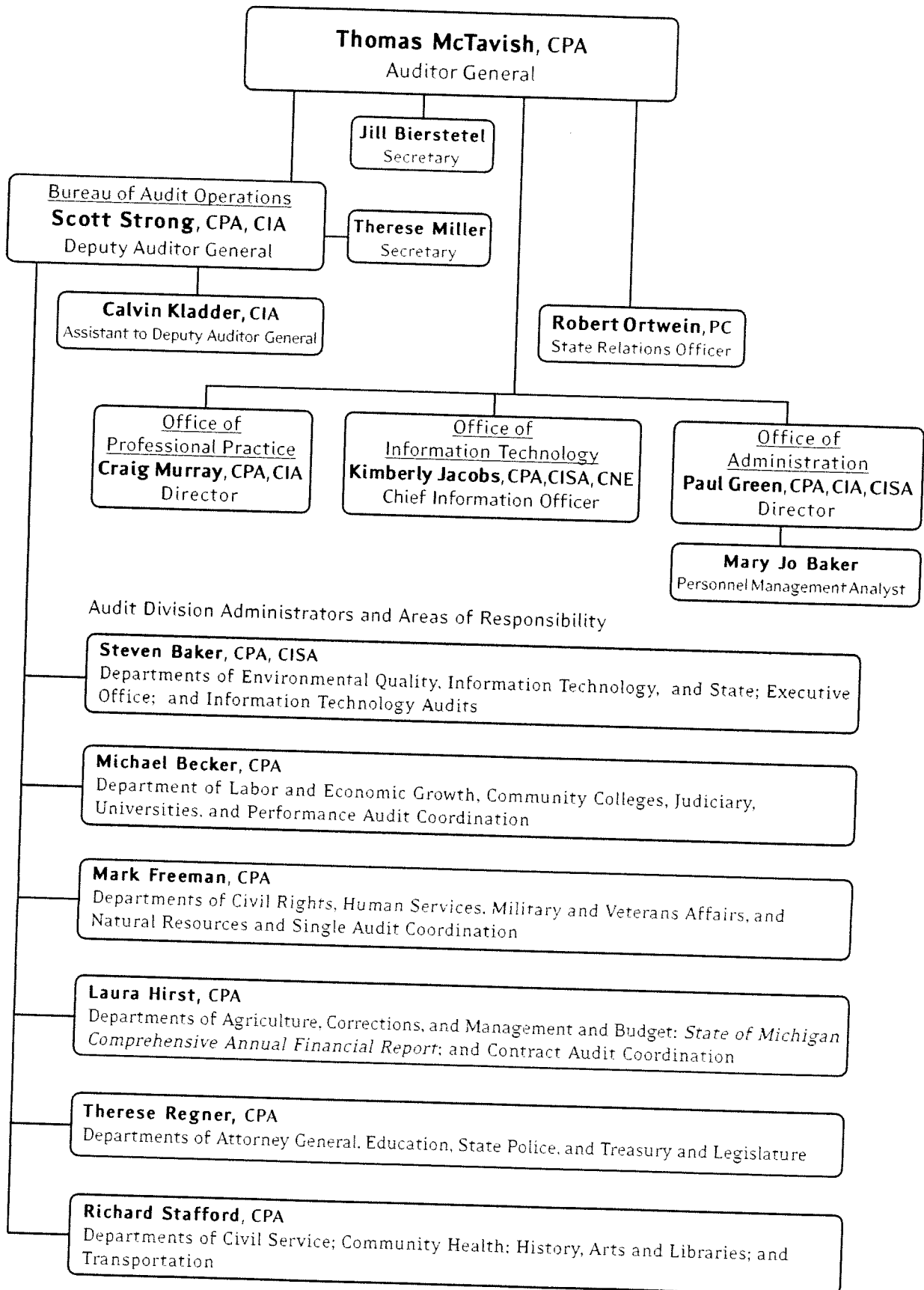
Furthermore, the OAG employs a State Relations Officer, whose primary responsibility is to enhance communication and effective relationships with the Legislature, the legislative leadership, and the Executive Office. The State Relations Officer also facilitates communication with the legislative fiscal agencies, judicial branch, State departments, and universities and community colleges.

Continuous Quality Improvement Efforts

The OAG's continuous quality improvement initiatives assist in developing quality improvement goals to focus efforts on providing timely and relevant audit services and reports. Measures to monitor progress in meeting these goals are also developed.

Each of the organizational areas within the OAG has developed improvement goals and objectives and performance measurement indicators. The OAG is committed to its continuous quality initiatives as it strives for further improvements in the future.

Organizational Structure



Types of Audits and Services Performed by the OAG

Financial Audits

- Financial statement audits are designed to provide reasonable assurance about whether the financial statements and/or schedules of an audited entity are presented fairly in all material respects in conformity with generally accepted accounting principles. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include providing special reports for specified elements, accounts, or items of a financial statement and/or schedule.
- Single Audits, which are financial audits performed in accordance with the Single Audit Act Amendments of 1996, are designed to meet the needs of all financial report users, including an entity's federal grantor agencies. Single Audits require the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133.

Performance Audits

Performance audits, which include economy and efficiency audits and program audits, are designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve operational effectiveness and efficiency, to improve public accountability, and to facilitate decision making by parties responsible for overseeing or initiating corrective action. Follow-up reviews of material performance audit findings are also classified as performance audits.

Attestation Engagements

Attestation engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. An attestation engagement can cover a broad range of financial or nonfinancial subjects.

Various types of audits complement each other.

Professional Standards

OAG audits are performed in accordance with the following professional standards:

- Generally accepted auditing standards of the American Institute of Certified Public Accountants
- *Government Auditing Standards* issued by the Comptroller General of the United States
- The federal Single Audit Act Amendments of 1996 and implementing regulations

Professional standards are strictly adhered to.

Independence

Government Auditing Standards issued by the Comptroller General of the United States and generally accepted auditing standards issued by the American Institute of Certified Public Accountants require auditor independence in fact as well as in appearance and specify what constitutes impairments to independence. The most recent National State Auditors Association external quality control review noted no impairments affecting the OAG's independence in providing auditing and other attestation services.

Independence standards are followed.

Value of OAG Reports

To the Legislature

OAG reports provide objective, unbiased, and independently developed information that members of the Legislature can use in making informed decisions with confidence. The OAG also responds directly to requests from any member of the Legislature to review activities, programs, or funds not included in the scope of scheduled audits. Annually, OAG reports contain hundreds of recommendations that identify opportunities for improving effectiveness and

Information from audit reports can be used in making informed decisions with confidence.

efficiency in State operations and provide information needed by the Legislature to make decisions regarding the continuation of programs and levels of funding. These recommendations have historically resulted in annual financial savings of tens of millions of dollars.

To the Auditee

OAG reports provide objective, unbiased, and independently developed information about the auditee's operations that can be used by management to improve its methods of operating. OAG recommendations, when implemented, frequently result in more effective, efficient, and economical programs.

To Third Parties

Investors and creditors obtain OAG reports and use them as a source of information that they can rely on to make decisions. For example, the *State of Michigan Comprehensive Annual Financial Report*, which includes the Auditor General's opinion regarding fair presentation in conformity with generally accepted accounting principles, is relied on by the financial community in setting bond ratings for State-issued debt. This report consistently qualifies for the annual Certificate of Achievement for Excellence in Financial Reporting presented by the Government Finance Officers Association.

Also, OAG Single Audit reports satisfy the federal government's demand for accountability of federal funds allocated to the State of Michigan.

To the Citizens of the State of Michigan

The citizens have confidence in knowing that the Legislature is aggressive in its oversight and accountability of money paid to the State in the form of taxes, fees, and other revenue and prudent in expending funds in accordance with statutes and regulations.

Many third party readers, including investors and creditors, and the citizens of Michigan use OAG audit reports.

To Whom and How Audit Reports Are Issued

Audit reports issued by the OAG are typically addressed to the audited entity's chief executive officer and/or the chair of its governing board or commission. Audit reports are typically forwarded via electronic mail.

On the day prior to the official release date of an audit report, copies of the audit report are sent to the following:

- The audited entity's chief executive officer and/or the chair of its governing board or commission
- House and Senate Quadrant Leadership
- Relevant House and Senate Standing Committee members
- Office of the Governor
- The legislator(s) who requested the audit (if applicable)

The audit report release process ensures broad distribution.

On the official release date, copies of the audit report are also sent to the following:

- All legislators
- House and Senate Fiscal Agencies
- Office of Financial Management, Department of Management and Budget (DMB)
- All others who have specifically requested a copy of the report being issued

The OAG does not issue press releases on any audit report. However, a copy of each audit report is sent to the Capitol pressroom.

OAG Contact With the Legislature

The audit report is the formal written contact that the OAG has with the Legislature. The OAG routinely provides legislative briefings to key members of oversight and appropriations committees and other members of the Legislature who have expressed a particular interest in specific topics or audit reports.

Audit reports, briefings, and hearings are ways that the OAG works with the Legislature.

In several instances, audit report briefings have resulted in legislators requesting OAG staff to testify at hearings on the audit report itself.

The Auditor General also testifies periodically on audit-related activities, as requested by the Legislature.

Reaction and Response to an Audit Report

Follow-up of OAG audit reports is provided for in law and administrative procedure.

Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 establish requirements for following up audit findings and recommendations for executive branch departments and subunits. The audited departments are required to develop formal responses to OAG audit findings and recommendations. This follow-up is in addition to the agency's preliminary response that is included in each OAG audit report.

Audited agencies are required to submit a formal response within 60 days after release of the audit report.

Audited agencies must submit a formal response covering all audit findings and recommendations to the director of the DMB Office of Financial Management within 60 days after release of the audit report, along with a response summary sheet indicating: (1) action completed, (2) recommendations to be complied with, and (3) contested findings and recommendations. Copies are also sent to the DMB Office of the State Budget as well as to the OAG.

Each response must state the agency's agreement or disagreement with the findings and recommendations. If in agreement, the response is to: (1) state the actions taken to address the findings and recommendations and when each action was completed or (2) state what actions will be taken to address the findings and recommendations and when such actions will be completed. If the audited entity is contesting audit findings or recommendations, the entity notes the specific area of disagreement and reason(s) for disagreement.

When the OAG performs an audit of a university or community college, the annual appropriations acts require the principal executive officer of the audited institution to submit a written response to the audit to the OAG, the House and Senate Fiscal Agencies, and the State Budget Director. Community colleges are also required to respond to the House and Senate Appropriations Committees and to the Department of Labor and Economic Growth. The response is due within 60 days after the audit report has been issued and should specify the action taken by the institution regarding the audit report's recommendations.

OAG Follow-Up on Material Findings

Audit reports that contain material findings and recommendations are routinely followed up with a limited scope review approximately six months after the release date of the audit report. In this way, the OAG can review the progress the auditee has made in complying with the recommendations and provide users of the audit report with timely information.

Material findings and recommendations are routinely followed up approximately six months after the release of the audit report.

Subsequent Audits

The preparation for subsequent audits begins with a preliminary survey, which includes reviewing the disposition of prior audit recommendations. The audited entity's official response to the prior OAG audit includes information explaining how it plans to comply with the OAG recommendations. Therefore, the OAG is able to review the status of all of the prior audit recommendations. For most recommendations, compliance will have been satisfactorily achieved. However, when compliance has not been achieved and the facts are substantially the same as before, the OAG will repeat the audit finding and recommendation(s) in the current report.

Office of the Auditor General Reports and Other Information

An audit report and its supporting evidence are considered confidential until the report's official release to the Legislature, the general public, and the press. Once a report has been released, it is public information and, as such, is available upon request.

Reports or information about our office can be found on our Internet web site at ***<http://audgen.michigan.gov>*** or can be obtained as follows:

- By written request directed to:

Office of the Auditor General
Victor Center, Sixth Floor
201 N. Washington Square
Lansing, Michigan 48913

- By telephone at (517) 334-8050
- By FAX at (517) 334-8079 (please include your name, address, and the specific reports or other desired information in your request)

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